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Memorandum

TO: PERS Board

FROM: Sparb, Kathy and Bryan

DATE: August 23, 2006

SUBJECT: Health Plan Renewal

This memo will provide you information on the following:

- Background on the renewal process
- The BCBS renewal for the existing plan design
- The BCBS estimated premiums for the alternate plan designs
- Recommendations on the next steps

The goal of the August 24th meeting will be to review the proposed renewal and identify follow-up items. We will have our final consideration of the renewal at the September 14th Board meeting

Background on the Renewal Process

The PERS Board began its preparation for the renewal several months ago when it arranged a series of background presentations from BCBS and others that included:

- Pharmacy Network Update – January 2006
- Employer Based Wellness Program Update – April 2006
- Worksite Wellness Pilot Program – April 2006
- Medical Management Update – May 2006

- Actuarial Update – May 2006
- Health Dialog Update – June 2006
- Clinical Pharmacy Update – July 2006

At the June meeting the Board heard the report from the PERS Benefits Committee that had met on May 16 and 30 to discuss the PERS plan design and scope of benefits. The committee had suggested the PERS Board seek renewal on the existing plan design and the following alternate designs:

Alt #1 – Deductible = EPO-250, PPO-500, BASIC-750, BRAND DRUGS COPAY-\$20

- a. COPAYMENTS = EPO-\$20, PPO-\$25, BASIC-\$30
- b. COPAYMENTS = EPO-\$25, PPO-\$30, BASIC-\$35

Alt #1A - same as the above except have basic at 500 instead of 750

Alt #2 – Deductible = EPO-500, PPO-1000, BASIC-1500, BRAND DRUGS COPAY-\$20

- c. COPAYMENTS = EPO-\$20, PPO-\$25, BASIC-\$30
- d. COPAYMENTS = EPO-\$25, PPO-\$30, BASIC-\$35

Alt #2A – same as the above except have basic at 1000 instead of 1500

Alt #3 – Traditional Plan Design with a HDHP option with an employer contribution to an HSA/HRA with \$1500 deductible with 80/20 coinsurance with \$2500 max for a total OOP of \$4000. A Contract holder elects the plan they want to participate in every two years.

Alt #4 – A HDHP with an employer contribution of 50% of the deductible to an HSA/HRA with a \$1500 deductible with 80/20 coinsurance with \$2500 max for a total OOP of \$4000.

The Board accepted this recommendation and directed staff to forward it on to BCBS to begin the renewal process (Attachment #1 is the plan designs for Alt #1 and #2 in table form).

The BCBS renewal for the existing plan design

Rate renewal

As we discuss the renewal the following exhibits will assume that the rates for next biennium will include the same services and programs as this biennium. This means that costs for the following will be included:

- Health Dialog (except it will be spread only to active contract)
- Pilot Wellness program (same as the above)
- Wellness Benefit program (same as the above)
- PERS Administration costs (with no change)
- No buydown amount will be applied (what is available is allocated to the IT project)

During the last year staff supplied the Board and other groups with the following information relating to the 2007- 2009 renewal:

Active State Renewal Rate

NOPEBS 2005-2007 Allocation and 2007-2009 Projection	NOPEBS 2007-2009 Planning Projections			
	5% Trend	7.5% Trend	10% Trend	13% Trend
2001-2003 reserve option rate	\$409.09	\$409.09	\$409.09	\$409.09
2003-2005 reserve option rate	\$499.70	\$499.70	\$499.70	\$499.70
2005-2007 BCBS full rate	\$578.46	\$578.46	\$578.46	\$578.46
2005-2007 reserve option rate	\$653.94	\$653.94	\$653.94	\$653.94
2005-2007 % increase	13.2%	13.3%	13.3%	13.3%
Expected 2007-2009 BCBS rate	\$637.75	\$668.40	\$699.94	\$730.64
Expected available surplus in 2007-2009 (\$0 -11111111)	\$0	\$0	\$0	\$0
Expected 2007-2009 buy down rate	\$637.75	\$668.40	\$699.94	\$730.64
2007-2009 \$ increase	\$83.81	\$114.51	\$146.00	\$184.70
2007-2009 % increase	15.1%	20.7%	26.4%	33.3%
Total additional funds*	\$15,833,000	\$21,813,000	\$27,587,000	\$34,899,000
Total additional general funds**	\$7,285,000	\$9,958,000	\$12,890,000	\$16,054,000

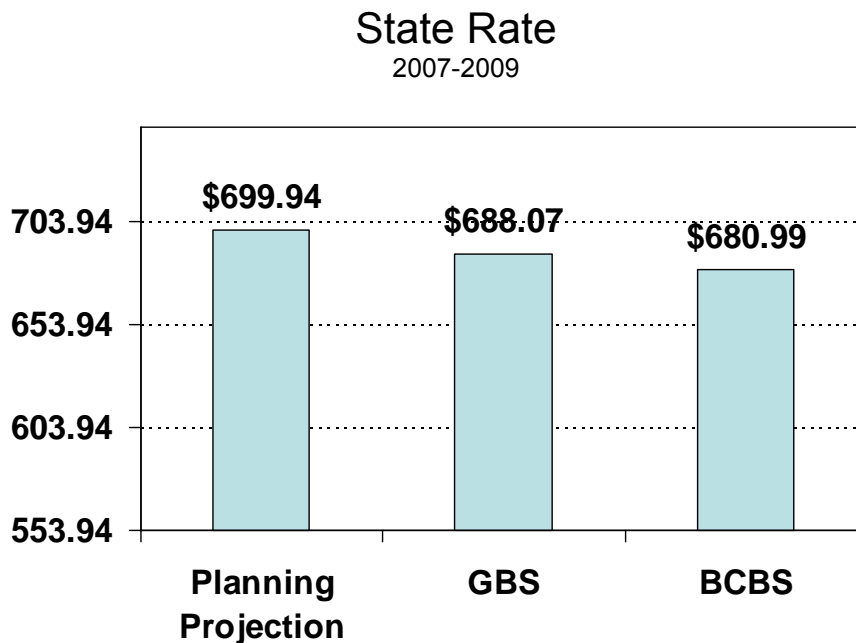
* - For biennium assuming 7,875 FTE's (excludes HE)

** - Assumed to be 43% of total funds

Staff has noted that the trend line was approximately 10%.

As part of the renewal we also ask our consultant to review the renewal amount. Attachment #2 is their review and comments.

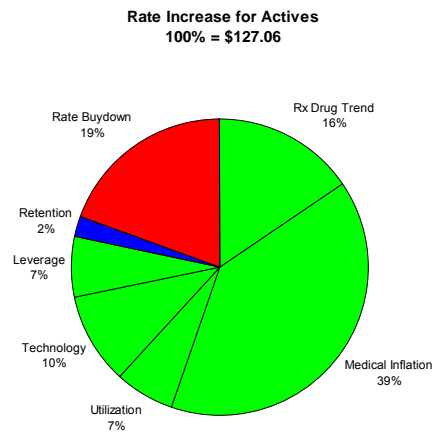
The following table shows the BCBS renewal amount and the estimated renewal by GBS with both compared to the planning projections:



The above shows that the BCBS proposed rate is:

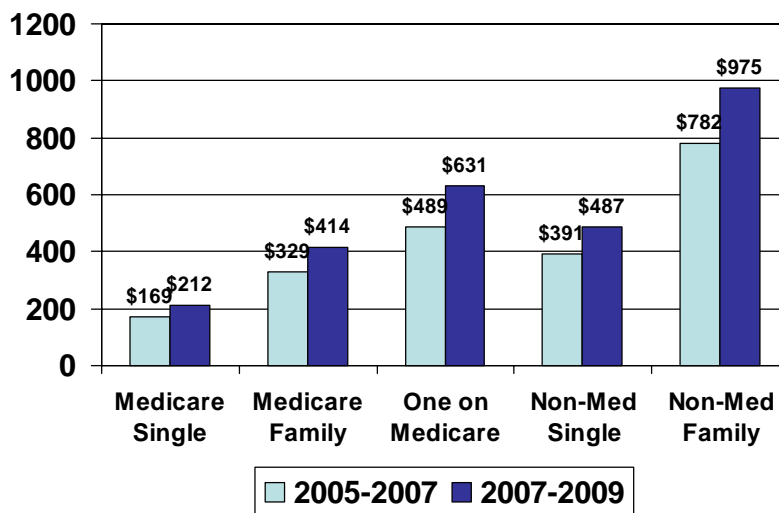
- Less than the planning projection
- Less than the GBS estimate

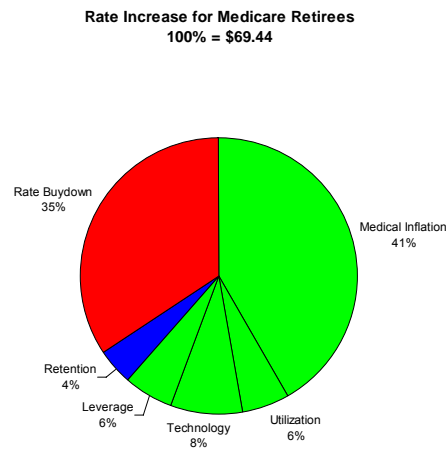
The following pie chart breaks down the estimated increase into its component costs:



The following table shows the proposed increases in the retiree rates.

NDPERS Retiree Rates





Please note the above retiree rates are for the medical only portion of the premium. The Rx portion of the coverage will be reviewed separately in September and will take effect on January 1st.

Other renewal consideration

The following are additional considerations relating the renewal:

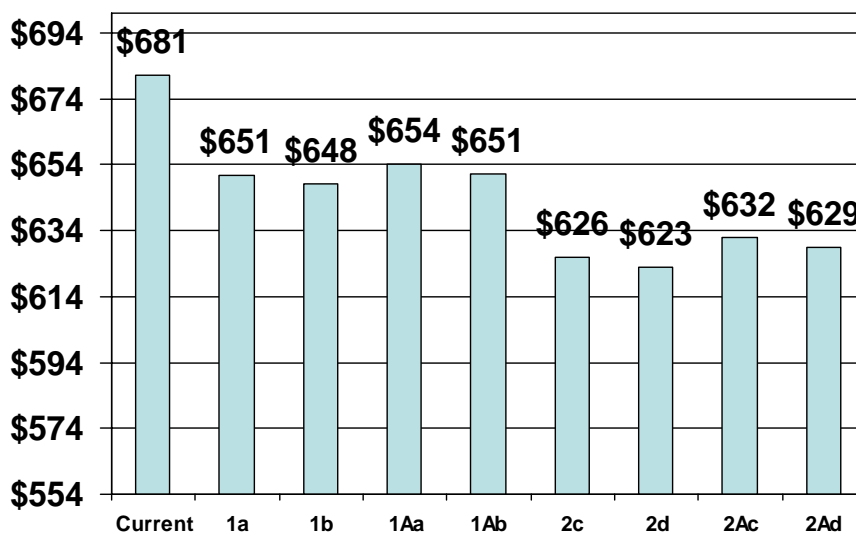
1. Continuation of the Health Dialog Program – the cost of continuing this program will rise from \$2.98 per contract to \$3.30 per contract. Also as noted above we have included this in the above renewal amounts and changed the prorating amount to active contracts only instead of all contracts.
2. Retention levels will increase
 - a. • From \$20.81 to \$23.00 per contract per month administrative expense
 - b. • From \$1.03 to \$1.14 per contract per month conversion privilege fee (0.20% of premium)
 - c. • From \$5.14 to \$5.76 per contract per month risk charge (1.00% of premium)
3. Continuation of the Worksite Wellness Program for its third year as originally proposed and approved.
4. Selection of Rate used for Interest Credit
 - a. • Currently using average US Treasury yields as quoted in Wall Street Journal for 5 year notes maturing 62 months from valuation.
 - b. • Propose using average US Treasury yields for notes maturing 12 months from valuation, or other mutually acceptable yield index/rate.

5. Agreement to reproject premiums in February of 2007 and if they merit a reduction to pass that along.
6. Premium Differential for Political Subdivisions using the EPO only option
 - a. Current rate differential of 7.0% has been in place several biennium's.
 - b. • Propose reducing to 5.0% to reflect benefit level and provider reimbursement in EPO.

The BCBS estimated premiums for the alternate plan designs

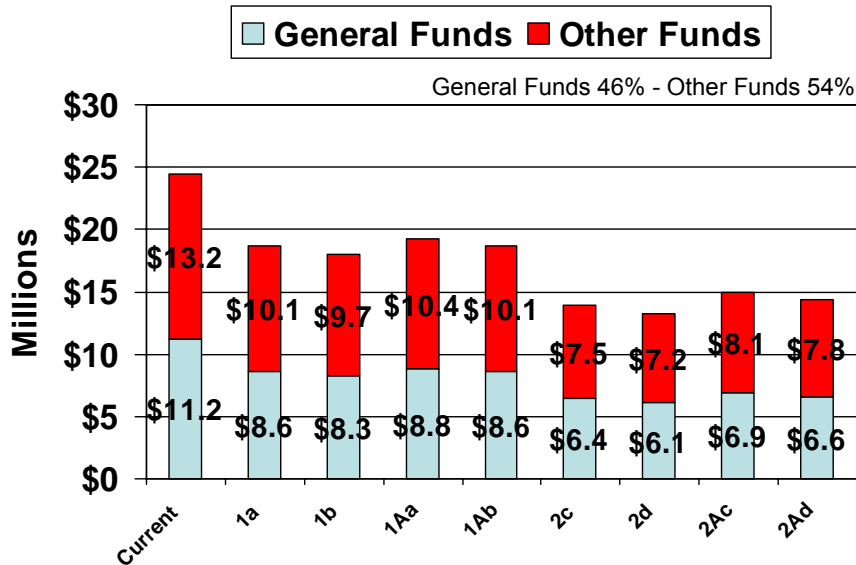
The following table shows the BCBS premium for the alternate plan designs discussed above compared to the existing plan designs:

NDPERS State Active Rates 07-09



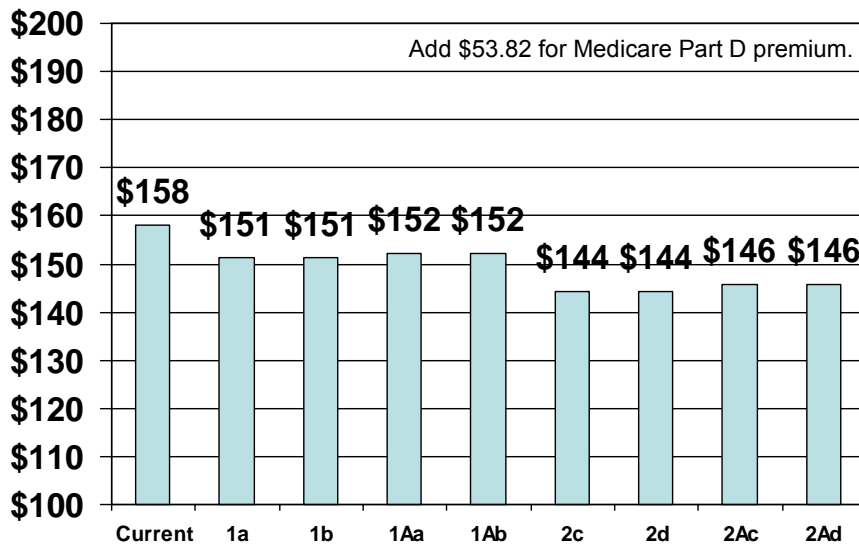
The following table shows the additional state funding required to support the current plan and the above alternates

NDPERS State Increase 07-09



The following table shows the effect on the of premium increase on the retiree plan designs:

NDPERS Medicare Single Rates 07-09



In addition to the above BCBS provided the following information relating to the HDHP option requested:

Product Description: High Deductible Health Plan with \$1,500 CYD single and \$4,500 family (embedded) deductible; 80%/20% coinsurance with \$2,500 maximum per single and \$5,000 maximum per family; deductibles and coinsurance apply to all services including Rx drugs. (Note that HDHP as described and rated above may not qualify members for HSA according to IRS regulation regarding individual and family deductible levels. Adjustments to benefit design necessary for qualification will require corresponding adjustment to rates).

• **"No Individual Choice Scenario"**

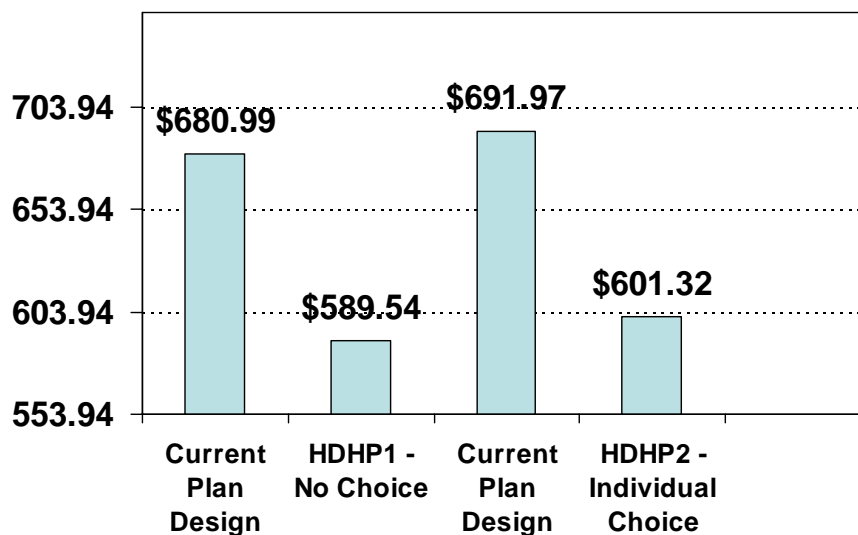
- Election to participate in HDHP made at the group/employer level for all employees. No individual election by employees allowed. Election may not be changed for two years.
- Renewal rate for current PERS benefit design (net of \$2.80 PERS fee): \$673.76 composite pcpm (PPO/EPO, single/family). Rate for HDHP product as described above: \$589.54 composite pcpm (single/family).
- BCBSND will not offer HDHP when rated compositely with PPO/EPO.
- "Cost neutral" annual employer contribution to HSA (equal to premium differential): \$483.09 per single, \$1,175.10 per family.

• **"Individual Choice Scenario"**

- Election to participate in HDHP made by the individual. Election may not be changed for two years.
- Risk charge of 2.0% added to all premium rates (both PPO/EPO and HDHP).
- Renewal rate for current PERS benefit design (net of \$2.80 PERS fee): \$687.24 composite pcpm (PPO/EPO, single/family). Rate for HDHP product as described above: \$601.32 composite pcpm (single/family).
- BCBSND will not offer HDHP when rated compositely with PPO/EPO.
- With no employer contribution will require 15.7% participation in HDHP for employer to break even.
- With annual employer contribution of \$492.75 per single and \$1,198.60 will cost employer 2.0% additional premium relative to base scenario.

State Rate HDHP

2007-2009



Suggested follow-up items

- Review the information with Insurance Department
- For the retiree group we should investigate the possibility to having them be a part of a larger pool. This may mean designating a Medicare Supplement Plan as our preferred plan or other approach.
- Ask BCBS for more information and justification for the retention increase
- To get clarified with BCBS the interest rate issue before final approval of the renewal
- To clarify the reprojection in Feb of 2007.
- To share the renewal information with OMB and other appropriate groups.

2007-2009 North Dakota State Health Plan:

Attachment 1

PLAN FEATURES	07-09 Plan		
	BASIC	PPO	EPO
Deductible for Non-Physician Services*	All	All	All
- Per Person	\$250	\$250	\$100
- Per Family	\$750	\$750	\$300
* Services billed by a physician or psychiatrist.	services	services	services
Copayment for Physician Office Visits	\$25	\$20	\$15
Copayment for Emergency Room Visits	\$50	\$50	\$50
Co-Insurance on covered services EXCEPT Physician Office Visits	75/25	80/20	85/15
Co-Insurance Maximum			
- Individual	\$1250	\$750	\$500
- Family	\$2500	\$1500	\$1000
Prescription Formulary Generic Drug			
- Copayment	\$5	\$5	\$5
- Co-Insurance	15%	15%	15%
Prescription Formulary Brand-Name Drug			
- Copayment	\$15	\$15	\$15
- Co-Insurance	25%	25%	25%
Prescription Non-Formulary Drug			
- Copayment	\$25	\$25	\$25
- Co-Insurance	50%	50%	50%
Out of Pocket Maximums (Deductible & Coinsurance)*			
-Single	\$1500	\$1000	\$600
-Family	\$3250	\$2250	\$1300
* - Copayments and Prescription Drugs are Additional			
Prescription Drug Coinsurance Maximum (Formulary Only)	\$1000	\$1000	\$1000
BCBS State Combined Premium	\$676.56		
Wellness (WBP \$.11, UND Pilot \$.25, Health Dialog \$4.07)	\$4.43		
Reserve option for all rates.	(\$0.00)		
State Combined Premium	\$680.99 (22.9%)		

2007-2009 North Dakota State Health Plan: Alternative #1a

PLAN FEATURES	07-09 Plan		
	BASIC	PPO	EPO
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	All \$750 \$2250 services	All \$500 \$1500 services	All \$250 \$750 services
Copayment for Physician Office Visits	\$30	\$25	\$20
Copayment for Emergency Room Visits	\$50	\$50	\$50
Co-Insurance on covered services EXCEPT Physician Office Visits	75/25	80/20	85/15
Co-Insurance Maximum - Individual - Family	\$1250 \$2500	\$750 \$1500	\$500 \$1000
Prescription Formulary Generic Drug - Copayment - Co-Insurance	\$5 15%	\$5 15%	\$5 15%
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	\$20 25%	\$20 25%	\$20 25%
Prescription Non-Formulary Drug - Copayment - Co-Insurance	\$25 50%	\$25 50%	\$25 50%
Out of Pocket Maximums (Deductible & Coinsurance)* -Single -Family * - Copayments and Prescription Drugs are Additional	\$1500 \$3250	\$1000 \$2250	\$600 \$1300
Prescription Drug Coinsurance Maximum (Formulary Only)	\$1000	\$1000	\$1000
BCBS State Combined Premium	\$646.50		
Wellness (WBP \$.11, UND Pilot \$.25, Health Dialog \$4.07)	\$4.43		
Reserve option for all rates.	(\$0.00)		
State Combined Premium	\$650.93 (17.5%)		

2007-2009 North Dakota State Health Plan: Alternative #1b

PLAN FEATURES	07-09 Plan		
	BASIC	PPO	EPO
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	All \$750 \$2250 services	All \$500 \$1500 services	All \$250 \$750 services
Copayment for Physician Office Visits	\$35	\$30	\$25
Copayment for Emergency Room Visits	\$50	\$50	\$50
Co-Insurance on covered services EXCEPT Physician Office Visits	75/25	80/20	85/15
Co-Insurance Maximum - Individual - Family	\$1250 \$2500	\$750 \$1500	\$500 \$1000
Prescription Formulary Generic Drug - Copayment - Co-Insurance	\$5 15%	\$5 15%	\$5 15%
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	\$20 25%	\$20 25%	\$20 25%
Prescription Non-Formulary Drug - Copayment - Co-Insurance	\$25 50%	\$25 50%	\$25 50%
Out of Pocket Maximums (Deductible & Coinsurance)* -Single -Family * - Copayments and Prescription Drugs are Additional	\$1500 \$3250	\$1000 \$2250	\$600 \$1300
Prescription Drug Coinsurance Maximum (Formulary Only)	\$1000	\$1000	\$1000
BCBS State Combined Premium	\$643.68		
Wellness (WBP \$.11, UND Pilot \$.25, Health Dialog \$4.07)	\$4.43		
Reserve option for all rates.	(\$0.00)		
State Combined Premium	\$648.11 (17.0%)		

2007-2009 North Dakota State Health Plan: Alternative #1Aa

PLAN FEATURES	07-09 Plan		
	BASIC	PPO	EPO
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	All \$500 \$1500 services	All \$500 \$1500 services	All \$250 \$750 services
Copayment for Physician Office Visits	\$30	\$25	\$20
Copayment for Emergency Room Visits	\$50	\$50	\$50
Co-Insurance on covered services EXCEPT Physician Office Visits	75/25	80/20	85/15
Co-Insurance Maximum - Individual - Family	\$1250 \$2500	\$750 \$1500	\$500 \$1000
Prescription Formulary Generic Drug - Copayment - Co-Insurance	\$5 15%	\$5 15%	\$5 15%
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	\$20 25%	\$20 25%	\$20 25%
Prescription Non-Formulary Drug - Copayment - Co-Insurance	\$25 50%	\$25 50%	\$25 50%
Out of Pocket Maximums (Deductible & Coinsurance)* -Single -Family * - Copayments and Prescription Drugs are Additional	\$1500 \$3250	\$1000 \$2250	\$600 \$1300
Prescription Drug Coinsurance Maximum (Formulary Only)	\$1000	\$1000	\$1000
BCBS State Combined Premium	\$649.72		
Wellness (WBP \$.11, UND Pilot \$.25, Health Dialog \$4.07)	\$4.43		
Reserve option for all rates.	(\$0.00)		
State Combined Premium	\$654.15 (18.1%)		

2007-2009 North Dakota State Health Plan: Alternative #1Ab

PLAN FEATURES	07-09 Plan		
	BASIC	PPO	EPO
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	All \$500 \$1500 services	All \$500 \$1500 services	All \$250 \$750 services
Copayment for Physician Office Visits Copayment for Emergency Room Visits	\$35 \$50	\$30 \$50	\$25 \$50
Co-Insurance on covered services EXCEPT Physician Office Visits	75/25	80/20	85/15
Co-Insurance Maximum - Individual - Family	\$1250 \$2500	\$750 \$1500	\$500 \$1000
Prescription Formulary Generic Drug - Copayment - Co-Insurance	\$5 15%	\$5 15%	\$5 15%
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	\$20 25%	\$20 25%	\$20 25%
Prescription Non-Formulary Drug - Copayment - Co-Insurance	\$25 50%	\$25 50%	\$25 50%
Out of Pocket Maximums (Deductible & Coinsurance)* -Single -Family * - Copayments and Prescription Drugs are Additional	\$1500 \$3250	\$1000 \$2250	\$600 \$1300
Prescription Drug Coinsurance Maximum (Formulary Only)	\$1000	\$1000	\$1000
BCBS State Combined Premium	\$646.90		
Wellness (WBP \$.11, UND Pilot \$.25, Health Dialog \$4.07)	\$4.43		
Reserve option for all rates.	(\$0.00)		
State Combined Premium	\$651.33 (17.6%)		

2007-2009 North Dakota State Health Plan: Alternative #2c

PLAN FEATURES	07-09 Plan		
	BASIC	PPO	EPO
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	All \$1500 \$4500 services	All \$1000 \$3000 services	All \$500 \$1500 services
Copayment for Physician Office Visits	\$30	\$25	\$20
Copayment for Emergency Room Visits	\$50	\$50	\$50
Co-Insurance on covered services EXCEPT Physician Office Visits	75/25	80/20	85/15
Co-Insurance Maximum - Individual - Family	\$1250 \$2500	\$750 \$1500	\$500 \$1000
Prescription Formulary Generic Drug - Copayment - Co-Insurance	\$5 15%	\$5 15%	\$5 15%
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	\$20 25%	\$20 25%	\$20 25%
Prescription Non-Formulary Drug - Copayment - Co-Insurance	\$25 50%	\$25 50%	\$25 50%
Out of Pocket Maximums (Deductible & Coinsurance)* -Single -Family * - Copayments and Prescription Drugs are Additional	\$1500 \$3250	\$1000 \$2250	\$600 \$1300
Prescription Drug Coinsurance Maximum (Formulary Only)	\$1000	\$1000	\$1000
BCBS State Combined Premium	\$621.48		
Wellness (WBP \$.11, UND Pilot \$.25, Health Dialog \$4.07)	\$4.43		
Reserve option for all rates.	(\$0.00)		
State Combined Premium	\$625.91 (13.0%)		

2007-2009 North Dakota State Health Plan: Alternative #2d

PLAN FEATURES	07-09 Plan		
	BASIC	PPO	EPO
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	All \$1500 \$4500 services	All \$1000 \$3000 services	All \$500 \$1500 services
Copayment for Physician Office Visits	\$35	\$30	\$25
Copayment for Emergency Room Visits	\$50	\$50	\$50
Co-Insurance on covered services EXCEPT Physician Office Visits	75/25	80/20	85/15
Co-Insurance Maximum - Individual - Family	\$1250 \$2500	\$750 \$1500	\$500 \$1000
Prescription Formulary Generic Drug - Copayment - Co-Insurance	\$5 15%	\$5 15%	\$5 15%
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	\$20 25%	\$20 25%	\$20 25%
Prescription Non-Formulary Drug - Copayment - Co-Insurance	\$25 50%	\$25 50%	\$25 50%
Out of Pocket Maximums (Deductible & Coinsurance)* -Single -Family * - Copayments and Prescription Drugs are Additional	\$1500 \$3250	\$1000 \$2250	\$600 \$1300
Prescription Drug Coinsurance Maximum (Formulary Only)	\$1000	\$1000	\$1000
BCBS State Combined Premium	\$618.66		
Wellness (WBP \$.11, UND Pilot \$.25, Health Dialog \$4.07)	\$4.43		
Reserve option for all rates.	(\$0.00)		
State Combined Premium	\$623.09 (12.5%)		

2007-2009 North Dakota State Health Plan: Alternative #2Ac

PLAN FEATURES	07-09 Plan		
	BASIC	PPO	EPO
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	All \$1000 \$3000 services	All \$1000 \$3000 services	All \$500 \$1500 services
Copayment for Physician Office Visits	\$30	\$25	\$20
Copayment for Emergency Room Visits	\$50	\$50	\$50
Co-Insurance on covered services EXCEPT Physician Office Visits	75/25	80/20	85/15
Co-Insurance Maximum - Individual - Family	\$1250 \$2500	\$750 \$1500	\$500 \$1000
Prescription Formulary Generic Drug - Copayment - Co-Insurance	\$5 15%	\$5 15%	\$5 15%
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	\$20 25%	\$20 25%	\$20 25%
Prescription Non-Formulary Drug - Copayment - Co-Insurance	\$25 50%	\$25 50%	\$25 50%
Out of Pocket Maximums (Deductible & Coinsurance)* -Single -Family * - Copayments and Prescription Drugs are Additional	\$1500 \$3250	\$1000 \$2250	\$600 \$1300
Prescription Drug Coinsurance Maximum (Formulary Only)	\$1000	\$1000	\$1000
BCBS State Combined Premium	\$627.36		
Wellness (WBP \$.11, UND Pilot \$.25, Health Dialog \$4.07)	\$4.43		
Reserve option for all rates.	(\$0.00)		
State Combined Premium	\$631.79 (14.1%)		

2007-2009 North Dakota State Health Plan: Alternative #2Ad

PLAN FEATURES	07-09 Plan		
	BASIC	PPO	EPO
Deductible for Non-Physician Services* - Per Person - Per Family * Services billed by a physician or psychiatrist.	All \$1000 \$3000 services	All \$1000 \$3000 services	All \$500 \$1500 services
Copayment for Physician Office Visits	\$35	\$30	\$25
Copayment for Emergency Room Visits	\$50	\$50	\$50
Co-Insurance on covered services EXCEPT Physician Office Visits	75/25	80/20	85/15
Co-Insurance Maximum - Individual - Family	\$1250 \$2500	\$750 \$1500	\$500 \$1000
Prescription Formulary Generic Drug - Copayment - Co-Insurance	\$5 15%	\$5 15%	\$5 15%
Prescription Formulary Brand-Name Drug - Copayment - Co-Insurance	\$20 25%	\$20 25%	\$20 25%
Prescription Non-Formulary Drug - Copayment - Co-Insurance	\$25 50%	\$25 50%	\$25 50%
Out of Pocket Maximums (Deductible & Coinsurance)* -Single -Family * - Copayments and Prescription Drugs are Additional	\$1500 \$3250	\$1000 \$2250	\$600 \$1300
Prescription Drug Coinsurance Maximum (Formulary Only)	\$1000	\$1000	\$1000
BCBS State Combined Premium	\$624.54		
Wellness (WBP \$.11, UND Pilot \$.25, Health Dialog \$4.07)	\$4.43		
Reserve option for all rates.	(\$0.00)		
State Combined Premium	\$628.97 (13.5%)		

GALLAGHER BENEFIT SERVICES, INC. Memo

To: Sparb Collins, Executive Director, NDPERS

From: Bill Robinson, Denver Office

Date: August 23, 2006

Re: Medical and Prescription Drug Plan Renewal
2007-2009 Biennium

Introduction

NDPERS retained Gallagher Benefit Services, Inc. (GBS) and its health actuarial subsidiary, Apex Management Group (Apex), to independently develop the projected rate renewal for its employee and retiree medical and prescription drug plans for the budget biennium beginning July 1, 2007. This memo and the attached documents will summarize our projections and assessment of the BCBSND renewal proposal.

Methodology

Enclosed with this memo are three documents:

1. Development of Projected Medical and Rx Paid Claims for Active and Non-Medicare Retirees for Plan Year July 1, 2007 through June 30, 2009
2. Development of Projected Medical Paid Claims for Medicare Retirees for Plan Year July 1, 2007 through June 30, 2009.
3. NDPERS: GBS Summary of Current Enrollment at Fully Insured Rates

To develop our projections, we used the following methodology:

1. Develop Net Paid Claims (after pooling) for the period 7/1/05-6/30/06
2. Develop Estimated Mature Claims by adding in an assumed pooling charge and an Incurred But Not Reported (IBNR) adjustment
3. Using current enrollment, develop PMPM mature claim costs
4. Multiply the results from step #3 above times our recommended trend factors for the duration of the biennium

5. Convert the PMPM costs to PEPM costs
6. Add in projected BCBSND retention costs

We did not assume any interest earnings on existing reserves. To the extent that NDPERS' reserve balance exceeds minimum IBNR requirements, the excess could potentially be used to "buy-down" or reduce the renewal requirements.

Reviewing BCBSND's renewal proposal and calculations, their methodology differed from ours in the following areas.

1. Their renewal used incurred claims. Ours used paid claims. As a result, we added an IBNR adjustment margin that they did not.
2. Their renewal used claims through 4/30/06 that were trended for 32 months. Ours used claims through 6/30/06 that were trended for 30 months.
3. Their renewal did not remove any catastrophic claims from consideration. We removed one \$700,000+ claim from our calculations.
4. Their renewal netted out any drug rebates paid back to the plan. We did not have access to rebate information and, therefore, did not consider them in our projections.
5. We used different trend factors and retention charge assumptions, as described below.
6. Their renewal percentage increase is compared to current gross premium rates (without considering any "buy-down). Our percentage change calculation (as directed by PERS) compares the increase over current net rates (after "buy-down")

As indicated in the attached documents, our independent 2007-2009 biennium projections using the assumptions stated above are:

- **Active/early retiree medical and prescription drugs:** +29.2% from current "net" premium rates
- **Medicare retirees medical:** +40.4% from current "net" premium rates

Assessment of BCBSND Renewal Proposal

BCBSND' proposed rate renewal for the 2007-2009 biennium is as follows:

- **Active/early retiree medical and prescription drugs:** +17.8% from current "gross" premium rates

- **Medicare retirees medical:** 22.3% from current “gross” premium rates

The differences between our projections and BCBSND’s are primarily due to the following.

1. Differences in trend factors. Ours are consistently higher than theirs.
2. Different trend periods due to a variance in methodologies of using incurred vs. paid claims
3. We removed one large claim from our calculations. BCBSND did not.
4. We used a lower retention cost increase assumption (+3% per year) than BCBSND (10.8% increase for two years)
5. We did not reduce drug trend by any rebate assumptions. By BCBSND’s admission, net rebates for the twelve month period ending 3/31/06 were approximately \$875,000.
6. Our percentage increase is (as directed by PERS) compared to current net “buy-down rates while BCBSND’s is compared to current gross rates (without the buy-down).

Adjusting for the differences cited above, the differences between our respective calculations are narrowed considerably. We have estimated that after reconciling our different methodologies, trend and retention assumptions, our “real” differences are:

- **Active/early retiree medical and prescription drugs:** GBS = 19.8% vs. BCBSND = 17.8% over current gross premium rates
- **Medicare Retirees:** GBS = 17.9% vs. BCBSND = 22.3% over current gross premium rates

Summary

In conclusion, the variances between our biennium renewal projections and BCBSND’s can be explained through differences in trend factors, methodology and retention assumptions. As their renewals for both the Active/Early Retiree and Medicare Retirees are lower than ours, we do generally recommend that the Board accept their proposal. The minor difference in our “reconciled” projections for Medicare Retirees could be attributable to the implementation of Medicare Part D on January 1, 2006. Therefore, we are comfortable with BCBSND’s renewal for this group.

Our only reservation is BCBSND’s proposed increase in retention charges of 10.8% is greater than what most of our larger clients are experiencing. We suggest that the Board request they thoroughly justify the reasons for this proposed increase.

Sparb Collins
August 23, 2006
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Please let me know if we can provide any additional information.

Regards,

cc: Neil Yang, FSA, GBS Apex
Shawn Adkins, GBS Denver

<p align="center">NDPERS</p> <p align="center">Development of Projected Medical & Rx Paid Claims - Active & Non-Medicare Retiree</p> <p align="center">For Plan Year July 1, 2007 through June 30, 2009</p>
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Biennium Rate Development (1)	Active & Non-Medicare Retirees			
	Hospital	Physician	Pharmacy	Total
1. Current Subscribers (from June billing statement)	19,808	19,808	19,808	19,808
2. Current Membership	49,284	49,284	49,284	49,284
3. Total Paid Claims (7/1/2005 to 6/30/2006)	\$54,539,545	\$45,342,400	\$18,351,035	\$118,232,980
4. Pooling: Claims over \$250,000	(\$481,847)	\$0	\$0	(\$481,847)
5. Net Paid Claims	\$54,057,698	\$45,342,400	\$18,351,035	\$117,751,133
4. Pooling Charge	2.00%	2.00%	0.00%	1.7%
5. Large Claim Adjusted Paid Claims	\$55,138,852	\$46,249,248	\$18,351,035	\$119,739,135
6. Incurred But Not Reported (IBNR) Adjustment	2.00%	2.00%	0.00%	1.7%
7. Estimated Mature Paid Claims	\$56,241,629	\$47,174,233	\$18,351,035	\$121,766,897
6. Average Exposure Units (Membership)	49,090	49,090	49,090	49,090
7. Paid Claims / Member / Month	\$95.47	\$80.08	\$31.15	\$203.27
8. Trend Factor (2)	26.3%	26.3%	30.0%	29.0%
9. Trended Medical & Rx Paid Claims / Member / Month	\$120.54	\$101.10	\$40.50	\$262.14
10. Conversion to Per Employee Per Month				\$652.22
11. Claims Retention - BCBSND / Employee / Month (3)				\$28.62
12. Needed Medical & Rx Premium / Employee / Month				\$680.84
13. Current Net Premium / Employee / Month (4)				\$527.03
14. Percent Change				29.2%

(1) Rate Development assumes Rx rebates and interest credits on surplus and reserves will be used for potential rate buy-downs in the future.

(2) Annual Trend Factors	10.5%	10.5%	12.0%
Months of Trend	30.0	30.0	30.0

(3) Charges below are Per Subscriber Per Month and have been converted to a Per Member Per Month charge in the rate development above.

a) BCBSND Retention	\$28.62	(Estimated to increase 3% per year for 2007 & 2008)
b) NDPERS Administration	\$2.80	
c) Disease Management & Wellness	\$3.48	(\$2.98 Disease Mgmt, \$0.41 UND Wellness Pilot, and \$0.09 Wellness Fund)

(4) Based upon June 2006 billing received from NDPERS, which represents the amount paid to BCBSND after buydown but before NDPERS Administration or Wellness charges.

<p align="center">NDPERS</p> <p align="center">Development of Projected Medical Paid Claims - Medicare Retiree</p> <p align="center">For Plan Year July 1, 2007 through June 30, 2009</p>
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Biennium Rate Development (1)	Medicare Retiree - Medical Only		
	Hospital	Physician	Total
1. Current Subscribers (from June billing statement)	4,532	4,532	4,532
2. Current Membership	6,166	6,166	6,166
3. Total Paid Claims (7/1/2005 to 6/30/2006)	\$4,951,407	\$3,115,406	\$8,066,813
4. Incurred But Not Reported (IBNR) Adjustment	2.00%	2.00%	2.0%
5. Estimated Mature Paid Claims	\$5,050,435	\$3,177,714	\$8,228,149
6. Average Exposure Units (Membership)	6,104	6,104	6,104
7. Paid Claims / Member / Month	\$68.95	\$43.39	\$112.34
8. Trend Factor (2)	33.8%	33.8%	33.8%
9. Trended Medical & Rx Paid Claims / Member / Month	\$92.23	\$58.03	\$150.26
10. Conversion to Per Employee Per Month			\$204.43
11. Claims Retention - BCBSND / Employee / Month (3)			\$28.62
12. Needed Medical & Rx Premium / Employee / Month			\$233.05
13. Current Net Premium / Employee / Month (4)			\$166.02
14. Percent Change			40.4%

(1) Rate Development assumes Rx rebates and interest credits on surplus and reserves will be used for potential rate buy-downs in the future.

(2) Annual Trend Factors	13.5%	13.5%
Months of Trend	30.0	30.0

(3) Charges below have been converted to a Per Member Per Month charge in the rate development above.

a) BCBSND Retention	\$28.62	(Estimated to increase 3% per year for 2007 & 2008)
b) NDPERS Administration	\$2.80	
c) Disease Management & Wellness	\$3.48	(\$2.98 Disease Mgmt, \$0.41 UND Wellness Pilot, and \$0.09 Wellness Fund)

(4) Based upon June 2006 billing received from NDPERS, which represents the amount paid to BCBSND after buydown but before NDPERS Administration or Wellness charges.

NDPERS
GBS Summary of Current Enrollment and Fully Insured Rates

Rate Category	NDPERS Contracts	BCBSND Net Rates (1)
State Actives		
Flat Rate	13,958	\$547.66
Temp., Part-Time, & COBRA		
Single	294	\$254.34
Family	126	\$636.84
Political Subdivisions		
* Rate Structure A		
PPO/EPO (w/ COBRA)		
Single	1,453	\$272.42
Family	1,855	\$681.42
EPO Basic (w/ COBRA)		
Single	381	\$252.58
Family	489	\$632.66
Political Subdivisions		
* Rate Structure B		
PPO/EPO (w/ COBRA)		
Single	43	\$275.36
Family	90	\$671.90
EPO Basic (w/ COBRA)		
Single	1	\$255.92
Family	2	\$624.84
Non-Medicare Retirees		
Single	518	\$384.64
Family	227	\$775.58
Family 3+	12	\$971.04
Total	19,449	\$10,325,490
Active & Non-Medicare Retiree	19,808	\$10,439,425
Medicare Retiree	4,532	\$954,889

Rate Category	NDPERS Contracts	BCBSND Net Rates (1)
Medicare Retirees		
* Rate Structure A		
Medicare Part A Only		
Single	2	\$374.90
Medicare Part A & B		
Single	2,814	\$163.12
Family	1,335	\$322.96
Medicare Retirees		
* Rate Structure B		
Medicare Part A & B		
Single	12	\$168.44
Family	10	\$331.70
Total	4,173	\$896,259

Rate Category	NDPERS Contracts	BCBSND Net Rates (1)
Over 1/Under 1 (Rate Structure A)		
Family One 1	333	\$482.62
Family One 2	9	\$433.62
Family One 3	4	\$384.62
Over 1/Under 1 (Rate Structure B)		
Family One 1	13	\$493.16
Assumed Rate Breakdown	Medicare	Non-Medicare
Family One 1	\$163.12	\$319.50
Family One 2	\$163.12	\$270.50
Family One 3	\$163.12	\$221.50
Family One 1 (w/o buy-down)	\$168.44	\$324.72

Total Medicare from Over 1/Under 1	359	\$58,629
Total Non-Medicare from Over 1/Under 1	359	\$113,935

(1) BCBSND Net Rates represent the premium after buydown, but before NDPERS Administration and Wellness charges.